COMMITTEE REPORT NO. 6 - 1 3 (5) TABLED ON FEB 2 3 1998

13th Assembly

Standing Committee on Government Operations

Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly for the Year Ended March 31, 1996

Roy Erasmus, M.L.A.,
Chair

105-00523/

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Northwest Territories Legislative Assembly

Standing Committee on Government Operations

February 23, 1998

THE HONOURABLE SAM GARGAN, MLA
SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker,

Your Standing Committee on Government Operations has the honour of presenting its Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly for the year ending March 31, 1996, and commends it to the House.

Roy Erasmus, MLA
Chair

Members of the Standing Committee on Government Operations

Roy Erasmus
M.L.A. Yellowknife North
Chair

Kevin O'Brien
M.L.A. Kivallivik
Deputy Chair

Seamus Henry
M.L.A. Yellowknife North

David Krutko
M.L.A. Mackenzie Delta

Michael Miltenberger
M.L.A. Thebacha

Edward Picco
M.L.A. Iqaluit

Tommy Enuaraq
M.L.A. Baffin Central

Alternate Members

Levi Barnabas
M.L.A. High Arctic

Floyd Roland
M.L.A. Inuvik

Jake Ootes
M.L.A. Yellowknife Centre

Staff Members

Doug Schauerte
Committee Clerk

Robert Collinson
Committee Researcher

Standing Committee on Government Operations
Report on the Review of the
Report of the Auditor General to the
NWT Legislative Assembly
for the Year Ended March 31, 1996

Introduction

This is the second year under the Standing Committee on Government Operations' mandate that it has met to consider the Auditor General's Annual Report. The 13th Assembly's Committee structure allows the Government Operations Committee to consider the Auditor General's comments in conjunction with other relevant issues which have been considered by the Committee before, rather than in isolation.

The Standing Committee met to review the Auditor General's Report on November 19th through November 21st, 1997. The first day of meetings was devoted to briefings by the Auditor General's staff and Committee staff on the nature of the Public Accounts, the auditing process, the review process for the Auditor General's Report and the issues raised in that report. The second day, November 20, was a public meeting at which the Committee Members took the opportunity to discuss the relevant issues with the Comptroller-General, Mr. Lew Voytilla, and the President of the Housing Corporation, Mr. David Murray. On the third day, November 21, the Committee met with Mr. Glenn Soloy, President of the NWT Development Corporation and Mr. David Hamilton, Clerk of the Legislative Assembly, to discuss the issues from the Auditor General's Report relevant to their responsibilities.

Committee Members addressed a number of important issues arising from the Report, as well as issues raised in previous Committee Reports.

Comptroller-General's Office

Reporting for Results

The Committee is generally satisfied with the positive linkages it has seen between the business plans and the budgets of the departments. It is felt by the Committee that this will assist the departments in communicating their accomplishments to the public and the MLA's, now that goals are outlined in the business plans, which were publicly released when tabled in the Legislative Assembly in late January.

Public Accounts

It is the view of the Committee that the Audited Public Accounts could be completed in a more timely fashion. If the Audited Public Accounts were completed in August, the Committee would be able to complete its review and table its report in the Fall Session.

The Committee was pleased with the Comptroller-General's commitment to provide the Audited Public Accounts to the Standing Committee earlier than in previous years. The earlier the Committee can review the Public Accounts, the earlier the Government can act on any recommendations of the Standing Committee and prevent any improper accounting or operational procedures from becoming institutionalized. In the past, because the reporting requirements contained in the *Financial Administration Act* only required the Government to table the Public Accounts by December 31, the Committee hasn't been able to complete its review and table its Report before the January sitting of the Assembly, and as a result the report has been tabled 11 months after the fiscal year end. The Committee looks forward to reviewing the Public Accounts and tabling its report in the fall session later this year.

Government Subsidies

One of the recommendations made in the Auditor General's Report concerned government subsidies. The Auditor General's Office reported that the Members of the Legislative Assembly were not receiving a true picture of the impact of subsidies on the Northwest Territories economy because some subsidies were hidden in the program delivery budgets of the departments. Committee Members agreed with the Comptroller-General that, in a jurisdiction such as the NWT, a case could be made that most government programs contain some level of subsidy. Nonetheless, the Committee is of the opinion that an overview of programs that may provide a subsidy should be provided to the Ordinary Members. The Committee has indicated its willingness to work with the Comptroller-General and the Financial Management Board Secretariat to develop the criteria for identifying subsidies.

Pay Equity

The pay equity issue continues to be a matter of concern to the Auditor General's Office and the Standing Committee on Government Operations. The Committee appreciates the Government's rationale for not listing pay equity as a potential liability in previous year's Public Accounts. However, Committee Members feel strongly that the Government must determine quickly if a liability exists, and if so, include pay equity as a liability in its accounts because of the potential for this becoming a division issue.

It is hoped that the pay equity issue can be resolved by negotiation with the Union of Northern Workers before the fiscal year end. The Committee appreciates the Government's commitment to list pay equity as a liability if one exists, regardless of the outcome of the UNW negotiations, in the 1997/98 Public Accounts.

Recommendation #1

The Standing Committee recommends that the Government identify the amounts to be entered into the Public Accounts to reflect pay equity liabilities, and that they list the liability in the Public Accounts as of March 31,1998.

Environmental Clean-up and Related Restoration Costs

The Committee is very concerned with the Government's lack of action in addressing the environmental liability issue. As this issue will definitely be on the table during the asset/liability negotiations between the various northern parties, the Committee is of the opinion that as a minimum the Government should perform a sort of "triage" on the environmental liabilities list. The primary goal of this triage should be to identify the sites and where there is a potential for harm to NWT residents, employees or wildlife; to identify the associated clean-up costs; and to create a plan and identify the necessary funding to deal immediately with these sites. The next goal of the triage should be to identify the sites where the Government of the NWT may have inherited a liability; to identify the responsible agency or government for each site and to inform the appropriate bodies of the NWT Government's potential statement of claim. As a first step, the Committee feels that the Government must identify the money to conduct the initial site review.

Recommendation # 2

The Standing Committee recommends that the Government:

a. prioritize the list of 624 contaminated sites, identifying those sites that pose a risk to the health and safety of people or wildlife;

b. conduct a detailed assessment of clean up options and related costs for those prioritized sites;

c. identify funding and conduct final clean up of these sites at the earliest possible time; and

d. develop and apply a consistent accounting policy for disclosing all environmental liabilities in the Public Accounts.

Supplementary Appropriations

In last year's report, the Committee stated its concern that some departments were circumventing the budgetary planning process by relying on supplementary appropriations as an integral part of their budgetary and planning cycle. It was felt by the Committee that the majority of these departments were aware, or should have been aware, that additional funding was likely to be required and that by using the supplementary appropriations, the departments denied the Committee and the Government the opportunity to gain a full understanding of the funding problems facing the departments.

The Committee is pleased that in this fiscal year the Government has not relied on supplementary appropriations and that the appropriations now appear to be largely used for the purpose for which they were created; to deal with fiscal issues which are unforeseen or cannot be accurately planned for.

Approaching Division

Realizing that the issues mentioned in the Auditor General's Report regarding preparations for division will have to be settled at the political level, the Committee appreciated the Comptroller-General's comments and update on how division planning was proceeding. The Committee will be closely monitoring these ongoing issues.

Revenues, Receivables and Receipts Management

The Auditor General's Report listed several concerns with the way the various government departments handled revenues. The Committee was generally satisfied with the Government's response to the concerns outlined in the Auditor General's Report. Committee Members agreed that the contracting out of the lesser value receivables to private collection agencies was a positive step and would free up the Financial Management Board Secretariat collection agents to pursue the higher value receivables.

The Committee would like to express some skepticism about the $300,000 cost estimate attached to the upgrade of the Financial Information System to enable the System to calculate and add interest to overdue accounts. The Committee feels that by not calculating and adding interest to the overdue accounts, the Government is missing out on a revenue generator as well as a tool to encourage timely account payment. It was noted that the NWT Power Corporation charged interest on overdue accounts and that there may be a possibility for the Government to make use of the Power Corporation's program.

The Committee also had the same concerns as the Auditor General's Office with respect to the handling of cash at the local and regional levels. With the privatization of some Government services, it was felt by the Committee that the Government needed to tightly monitor the deposit requirements to ensure that any cash reporting deficiencies were discovered and dealt with in a timely, efficient manner.

Recommendation # 3

The Committee recommends that the next financial information system purchased for use by the Government have the ability to calculate and compound interest on overdue accounts.

Recommendation # 4

The Committee recommends that the Government take immediate steps to improve the process for handling cash receivables and that the process be made more stringent and that the opportunities for direct deposits and other such mechanisms be explored to minimize theft potential and losses to the Government.

Legislative Assembly

Overexpenditures

The Committee was satisfied with the Legislative Assembly's explanation of the reason for an overexpenditure in the pension liability of the Legislative Assembly Supplementary Retiring Allowances Fund. The Committee is pleased that the administration of the Legislative Assembly and the Financial Management Board Secretariat have reached an agreement on the reporting requirements for the Fund and Members are satisfied that the Committee will not be revisiting this issue again.

The Northwest Territories Development Corporation

The Committee was very disappointed with the lack of a detailed response to the Auditor General's Report by the Development Corporation. Unlike any of the other departments or agencies appearing before the Standing Committee, the Corporation did not prepare a comprehensive presentation. When the Corporation's presentation to the Committee is compared to other department's presentations it is apparent to Members that the Corporation failed to address any of the issues or concerns arising out of the Auditor General's report. Although the presentation forecasted a positive future for the Development Corporation, Committee Members felt that the Corporation failed to indicate any quantifiable actions or results.

The Committee has some sympathy for the current administration, given the problems with the Development Corporation that were inherited, however, the Committee does not believe that the current administration can abdicate its responsibility to respond to the Auditor General's Report, by virtue of the fact that they were not responsible for the actions of previous administrations.

The glaring problem with the Development Corporation, in the minds of Committee Members, is that the Corporation does a poor job in communicating the results of any investment that it makes. The Committee realizes that some investments are in fact subsidies to businesses that have no reasonable chance of success. However, in the absence of any report or statement that contains measurable, quantifiable results, the Committee is not comforted by the Corporation's positive outlook that there is nothing to worry about. Nearly two years have passed under new administrative leadership; there should be some way to measure the results of the changes to the Corporation that have been implemented.

The Committee is concerned that the Corporation has an inventory control problem. The Committee understands that the Corporation is dealing with the problem and is trying not to sell off the inventory at reduced prices to avoid market disruptions.

The Committee would like to see a listing of all surplus inventory held by Development Corporation subsidiaries and venture companies and the value assigned to that inventory.

Recommendation # 5

The Committee recommends that the NWT Development Corporation identify the positive linkages between the Corporation's Business Plan and the end result in its 1997/98 year end statement, paying particular attention to the results achieved that can be attributed to the administrative changes implemented by the new management. These results should be presented to the Standing Committee on Resource Management and Development at the earliest opportunity, for their review.

Northwest Territories Housing Corporation

The Committee was generally pleased with the presentation and response to the Auditor General's Report made by the NWT Housing Corporation. The Committee appreciated the President's candor in discussing the issues facing the Housing Corporation. The Committee looks forward to receiving a legal opinion on the tax implications of the mortgage subsidy programs that the Corporation has undertaken to provide to the Committee.

There is still a concern on the part of Committee that when higher income tenants move out of social housing, they take with them the significant rent paid to the Local Housing Authorities, and are replaced with low income tenants who can only afford the minimum rental costs. This scenario could impact negatively on the block funding supplied by the Housing Corporation to the Local Housing Authorities. The Committee strongly urges the Corporation to monitor this situation and if required make adjustments to the base block funding provided to affected Local Housing Authorities to ensure that the Local Housing Authorities can fulfill their mandate.

The Committee was pleased to see the period of debt forgiveness increased from five to fifteen years. The Committee feels that this was a positive move by the Corporation to ensure that abuses of the system be kept to a minimum.

The Committee also has concerns about the inequities between the different programs that the Housing Corporation administers. It was felt that this is a divisive issue in some communities and results in a lower rate of financial return for the Corporation.

The Committee was pleased to hear about the phasing out of the Rural Remote Housing Program and the Corporation's fairness in dealing with the homeowners who had honoured their commitment.

The Committee is of the opinion that the Corporation and the Local Housing Authorities must deal aggressively with people who abuse any of the homeownership programs. If one person in the community sees that there are no consequences for others who do not fulfill their obligations, problems with abuses of the system will only multiply.

Recommendation # 6

The Standing Committee recommends that the Legislative Assembly request the Auditor General to conduct a comprehensive review of the NWT Housing Corporation, concentrating on the inequities between the programs the Housing Corporation administers.